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ASX ANNOUNCEMENT

22 February 2018

Engenco reports FY2018 Half Year results

- **Strong 6 months yields $7.5 million net profit after tax**
- **$5.0 million net operating cash generated**
- **Growth initiatives underway**

Engenco Limited (ASX:EGN) (**Engenco** or **Company**), the specialist industrial engineering services group, today announced a Total Net Profit after Tax of $7.5 million for the first half of FY18 ended 31 December 2017 (H1 FY17: $3.4 million). Total revenue from continuing operations for the period was $78.2 million (H1 FY17: $62.4 million).

	H1 2018 $'000	H1 2017* $'000
Revenue from continuing operations	**78,227**	62,426
EBITDA from continuing operations	**9,721**	5,556
EBIT from continuing operations	**7,897**	3,790
Profit / (loss) after tax from continuing operations	**7,540**	3,425
Profit / (loss) from discontinued operations, net of tax	-	(538)
Net operating cash flow	**5,008**	5,832
Net assets	**63,094**	57,011
Net cash / (debt)	**7,261**	4,697

* Net assets and Net cash / (debt) comparatives are as at 30 June 2017.

Note – EBITDA, EBIT and Net cash / (debt) are non-IFRS financial measures, which have not been subject to review or audit by the Group's external auditors. These measures are presented to assist understanding of the underlying performance of the Group.

A strong first half

The Group recorded a total net profit after tax for the six months ended 31 December 2017 of $7,540,000 compared to $2,887,000 in the corresponding period ended 31 December 2016. Revenue from continuing operations grew by 25.3% in the first half to $78,227,000 (H1 FY17: $62,426,000) as a result of improved sales across all segments. Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations in the half was $9,721,000 (H1 FY17: $5,556,000).

Kevin Pallas, Engenco's Managing Director and CEO said, "Strong Group earnings before interest and tax (EBIT) from continuing operations of $7,897,000, compared to $3,790,000 in the corresponding period, is a particularly favourable outcome following positive contributions from a broad range of factors in the six months, including quality of projects and revenue."

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Mr Pallas continued, "There were no major investments nor divestments undertaken in the period. There was some modest capital expenditure and, as expected, net working capital has grown in response to higher business volumes. The Group cash position further improved enabling a complete pay-down of debt. The Elph funding facility was undrawn at the period end and remains so at the time of this announcement."

The Group net cash position at period-end was $7,261,000 compared to $4,697,000 at the end of June 2017.

Operations deliver positive outcomes

Referring to segment performance, Mr Pallas said, "Our Power and Propulsion business performed well as conditions in the Australian mining sector continued to improve. Defence sector project activity and product support volumes have led to encouraging prospects. We have also launched a number of initiatives aimed at increasing our specialist products and services portfolio, including in the commercial vehicle and the gas-compression industries. These gained momentum in the first half. Workshop utilisation levels have improved and we have met the additional demand by up-scaling our facilities and growing our workforce."

Gemco Rail reported a marginal increase in revenue, and profitability remained at healthy levels in a highly competitive market. Further upgrades to facilities coupled with equipment investments helped to meet increased workshop demand in Forrestfield and Dynon, whilst positive operating leverage was gained through increased throughput. The Product Sales business expanded further by offering a range of innovative rollingstock optimisation products, thereby achieving good market penetration into key customers' rail fleets. Volumes continued to increase in the upgraded bearing refurbishment facility in Western Australia and locomotive maintenance activity remained robust. The PQGY wagon fleet was not fully utilised in the half, which marginally affected Gemco's net profit, but there are several prospects for rentals in the short to medium-term.

Mr Pallas said, "We have positioned Gemco Rail for growth and, with the recent opening of our on-rail rollingstock maintenance facility in Newcastle, we expect to play a significant role in the coal fleet maintenance sector. Additionally, we have good prospects in other parts of New South Wales and in Queensland. We plan to gain traction in these areas as we continue to invest in the expansion of our rail maintenance network."

Rail workforce provisioning business, Momentum Rail, again showed improved performance as services provided to rail operators and track maintenance providers expanded. The Western Australian market remained subdued, but activity in the Eastern States remained robust where Momentum Rail is positioned to take advantage of the marked increase in activity in the below-rail infrastructure sector.

Commenting on the performance of the Centre for Excellence in Rail Training (CERT Training), Mr Pallas said, "Our RTO was able to leverage the investments made in previous periods, and met the increased demand for training services particularly in Victoria and Queensland. The CERT Training team is focussed and passionate about vocational education and training, and with the opening of further training centres we have been able to reach our market and provide students with a high-quality outcome far more effectively."

Convair Engineering, the dry bulk road tanker design and manufacturing business, delivered an improved revenue result, and further advances in tanker design and efficient production methods helped drive better profitability. Convair's fleet servicing, spares and repairs business remains steady. The Australian construction industry is experiencing a robust period, and this has helped boost demand for new tankers significantly, leading to a healthy order book for Convair.

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Outlook

Foundations laid in prior periods, together with a generally positive economic environment, contributed to the significantly improved financial results for the first six months of FY18. As Engenco continues to invest in new projects and facilities, the benefits may take time to mature and the overall Group performance in the second half is expected to moderate.

In conclusion Mr Pallas said, "Much has been achieved to improve performance in all of our businesses over the past several periods. Our staff have contributed greatly as we continue to develop high-achieving teams and drive innovative thinking. We are working hard to take advantage of the current buoyant business climate and, whilst remaining cautiously optimistic about the future, we will continue to invest in value-adding growth initiatives."

About Engenco Limited

Engenco (EGN) specialises in:

- Maintenance, repair and overhaul of heavy duty engines, powertrain, propulsion and gas compression systems
- Maintenance, repair and overhaul of locomotives
- Manufacture and maintenance of wagons, carriages and associated rail equipment
- Project management, training and workforce provisioning
- Manufacture and supply of road transport and storage tankers for dry bulk products
- Leasing of wagons and other rail equipment

Engenco services a diverse client base across the defence, resources, marine, power generation, rail, heavy industrial, mining and infrastructure sectors.

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